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UNIVERSITY OF EDINBURGH
Business School



Response to the Greenhouse Gas Protocol's Consultation on Draft Scope 2 Guidance

We welcome this opportunity to provide input to the Greenhouse Gas Protocol's consultation on its draft *Scope 2 Guidance*. We are writing as members and Directors of four independent institutions with an impartial interest in maintaining high standards of transparency and decision-usefulness of greenhouse gas (GHG) reporting: The University of Edinburgh Business School's Centre for Business and Climate Change (CBCC), the Edinburgh Centre for Carbon Innovation (ECCI), the Association of Carbon Professionals (ACP) and the GHG Management Institute (GHGMI). Together we represent the largest cluster of academics working on GHG accounting and reporting in the UK (CBCC and ECCI) and the two largest professional bodies (globally) exclusively representing individuals working in the same areas (ACP and GHGMI). The views expressed in this consultation response are therefore from an independent practitioner/academic viewpoint, without any vested or commercial interest in the outcome of the consultation.

We believe that accurate GHG accounting is an essential tool for enabling organisations to manage and communicate their impacts on global emissions of GHGs, and for enabling shareholders and other stakeholders to take action accordingly. It is therefore highly important to ensure that greenhouse gas accounts are accurate, credible and relevant or decision-useful. It is for this reason that we have a number of concerns with the draft *GHG Protocol Scope 2 Guidance*.

The main problems with the draft guidance

Contractual emission factors do not fulfil the core GHG accounting principles of accuracy and relevance. In order to be accurate and relevant to decision making *GHG accounts have to reflect the emissions caused by the reporting company's activities*, and contractual factors break with this fundamental requirement (for a detailed discussion of the problems with contractual emission factors please see: <http://scope2openletter.wordpress.com/>). The draft guidance attempts to mitigate the problems associated with contractual emission factors by proposing the compromise solution of dual reporting, however there are a number serious issues with this solution:

1. There is already considerable confusion with scope 2 accounting (even with a single inventory result), and dual reporting is likely to create additional confusion. Unfortunately, the balance of evidence to date, across a variety of countries, sectors and reporting

standards (Andrew & Cortese, 2011; Dragomir, 2012; Haigh & Shapiro, 2012; Kolk, Levy, & Pinkse, 2008; Solomon, Solomon, Norton, & Joseph, 2011; Sullivan & Gouldson, 2012) suggests that corporate GHG reporting is currently *not applied with sufficient consistency to provide reliable or decision-useful information*. It is likely that companies will not be able to accurately implement proposed ‘quality’ criteria in the draft guidance, and double-counting or inconsistent reporting of scope 2 results will persist as the default practice.

2. Users of greenhouse gas accounts are likely to struggle to understand the meaning and appropriate uses of the two scope 2 results, and may interpret the contractual results as reflecting the emissions caused by the company’s electricity consumption – when this is not correct. Poor decision-making is likely to result. The draft guidance does not clearly explain how to interpret locational and contractual results, and so does not mitigate the likelihood of confusion (e.g. in Section 9.6, there is no guidance or warning on using contractual-based results for decision-making, due to the fact that the contractual-based results do not accurately reflect the emissions caused by the reporting company).
3. The only justification for using contractual emission factors is to promote the generation of renewable electricity, however, the current draft guidance allows contractual factors that do not have any causal relation with the amount of renewable generation, and so does not even support that objective.
4. The proposed guidance will create an additional reporting burden for all companies in jurisdictions where a contractual approach is available, which will affect the vast majority of entities currently using the GHG Protocol. Further administrative resources will also be required to calculate and regularly update the residual mix emission factor. Dual reporting does not appear to offer any significant benefit to justify these additional costs, and may constitute a further barrier to the voluntary adoption of greenhouse gas accounting.

Our recommended solution

As an alternative to the proposed dual-reporting approach, we would *strongly recommend* that the simplest and most straightforward approach to scope 2 accounting would be to require only one scope 2 number, based on the locational approach, with the promotion of renewable electricity generation better supported and accounted for using a project-based method. Using a project-based method would ensure that the additionality of the renewable generation is accounted for, and would also allow reporting companies to show the total reduction in emissions they have caused, rather than only allocating a zero figure in the scope 2 inventory. Further efforts can then focus on ways to improve locational factors and data for reporting and markets that demonstrably cause new renewable energy investment. For example, establishing under a project-based framework, guidance or standards for recognizing actions through renewable energy contractual arrangements that are large, long-term term, and remain bundled in a way that a credible causal claim can be made that additional renewable energy has been generated and fossil fuel-fired generation has been displaced or avoided.

Improvements if the GHG Protocol is to persist with dual-reporting

Although we firmly believe it would amount to an error in judgment, if the GHG Protocol is going to persist with dual-reporting there are a number of changes that must be made to reduce the resulting damage to the credibility of GHG accounting:

1. The guidance must clearly require that the two scope 2 numbers *shall* be reported with equal visibility and emphasis, and the locational number must not be hidden in a footnote or accompanying appendix.
2. If there is to be dual reporting then there *must* also be dual reduction targets that are reported with equal visibility and emphasis. Otherwise companies can report that they have met their reduction targets purely by shuffling the allocation of emissions via contractual factors – and without having reduced actual greenhouse gas emissions in any way. This would be highly misleading to the users of greenhouse gas accounts, as many users would not be aware that contractual factors do not reflect the emissions caused by the reporting company.
3. Similarly, if there is to be dual reporting then there *must* also be dual reporting for supply chain purposes, otherwise the users of the end results will not be able to compare the supply chain emissions of different companies on an equal basis. In addition, comparisons should only be made using locational-based results, as contractual results do not provide information on the emissions *caused by* different companies or supply chains.
4. The guidance must make it clear that the *only* reason for using contractual emission factors is to support the generation of renewable electricity, and that reporting companies should therefore only use such factors when there is evidence that doing so causes additional renewable generation. A vague objective of “expressing a choice in the market” is not a credible justification if the market in question does not actually change the amount of renewables generated.

As it stands the draft guidance allows companies to undertake accounting practices which are likely to misinform users of the GHG information. While we recognise that there is likely to be considerable pressure from parties with commercial and other interests in the outcome of the final guidance, it is important to consider that reporting companies look to the GHG Protocol for leadership on GHG accounting, and their interests are not served by guidance that will not stand up to independent scrutiny or wider stakeholder expectations. We sincerely hope that the guidance can be strengthened so that the stated aims of: 1. accurate and relevant accounting; and 2. the promotion of renewables, are genuinely met.

We would be very happy to discuss these issues further with WRI, and to provide any other follow-up information that may be helpful.

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